



Press Clipping Article

Title: Dairy farmers feeling heat - Higher production costs adding to the price of goods - up to 30 percent

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Lead:

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As demand for milk, cheese and yogurt and other dairy products grows past current all-time highs, some farmers in Warren County welcome the higher prices but say they are still feeling the pressures of higher production costs, mainly from fuel prices and dry weather.

Dairy farmer Carl Chaney said his milk prices are up about 30 percent from what they were a year ago.

He said even though that results in higher consumer prices, keep in mind farmers are still dealing with high fuel prices and also higher feed prices because of increased production of biodiesel and ethanol.

Chaney's small dairy farm consists of about 50 cows, he said.

"There's a lot of corn that is going into biodiesel and ethanol and it has jumped my feed price, which is running about 35 to 40 percent higher than this time a year ago," Chaney said. "Another problem for farmers is that it has been so hot and so dry production is really not where you would hope it would be."

According to the Southeast United Dairy Industry Association, growing milk sales as schools and restaurants begin to serve more milk are a relief for dairy farmers.

Today, more than 2,000 schools in the Southeast serve milk in plastic, re-sealable bottles. Subway and Sonic have joined McDonald's and Wendy's in marketing milk as a healthy alternative to soft drinks.

After switching to more attractive milk packaging, McDonald's and Wendy's reported weekly milk sales increasing from 690,000 items to 5.2 million.

This is good news for dairy farmers in the Southeast, who have traditionally struggled with

higher production costs, according to Bill Herndon, a dairy economist at Mississippi State University.

“There is some good news,” Herndon said, “But it's tempered with increased production costs and higher transportation costs. I believe that dairy farmers in the Southeast are better off this year.”

But demand for dairy products is also growing overseas.

“Consumption in China, Southeast Asia, Mexico, the Middle East and Russia in particular has been strong over the past three years,” said Tom Suber, president of the U.S. Dairy Export Council. “We saw 2006 as a watershed year for U.S. dairy exporters.”

U.S. dairy exports are reaching record levels, according to Suber.

In 2006, U.S. exports of milk powder, whey, cheese, lactose and other dairy products were valued at \$1.89 billion, up 13 percent from the prior year, according to the U.S. Dairy Export Council.

Last year is a continuation of a three-year growth trend, with total U.S. exports up 77 percent by value and 75 percent by volume, since 2003, the council said.

Advocates dispute ethanol to blame for higher food prices

Many farmers, like Chaney, feel as if the growing demand for corn due to ethanol and production for other alternative fuels may be one source of why overall feed prices have risen, which trickles back to consumers in higher food costs.

But Brian Jennings, vice president of the American Coalition for Ethanol, points to higher fuel prices as the reason for increased food costs.

“Critics of ethanol are stirring controversy where none exists, because higher food prices have more to do with \$3.50 per gallon fuel than with \$3.50 per bushel corn,” Jennings said. “While corn prices might add \$10 per year to a person's grocery bill, skyrocketing gasoline prices are taking an additional \$10 a week out of peoples' pocketbooks.”

The American Coalition for Ethanol says that while corn is an ingredient in only some grocery items - mainly livestock, dairy, and poultry - all grocery items are dependent upon energy for production, processing, packaging and shipping.

These non-farm costs make up the majority of the real cost of food, according to the coalition.

According to the USDA, 81 cents of every food-cost dollar pays for expenses such as labor, packaging, advertising, transportation and energy costs.

New research conducted recently by economist John Urbanchuk of LECG found that rising energy prices have twice the impact on the Consumer Price Index for food than does the price of corn.

The full report, "The Relative Impact of Corn and Energy Prices in the Grocery Aisle," is available on the ACE Web site, www.ethanol.org.

The study finds that "a 33 percent increase in crude oil prices results in a 0.6 percent to 0.9 percent increase in the CPI for food, while an equivalent increase in corn prices would cause the CPI for food to increase only 0.3 percent."

This shows that increasing petroleum prices have at least twice the impact on consumer food prices as an equivalent increase in corn prices.

Consumers might pay an additional \$10 for groceries due to corn prices, but at the same time they pay an additional \$20 to \$30 due to escalating fuel prices.

The American Coalition for Ethanol is the grassroots voice of the U.S. ethanol industry, a national trade association for the ethanol industry with nearly 2,000 members nationwide, including farmers, ethanol producers, commodity organizations, businesses supplying goods and services to the ethanol industry, rural electric cooperatives and individuals supportive of increased production and use of ethanol.

The top six ranking dairy counties according to the number of Grade A dairy farms in December, 2006 were:

Barren County, with 79 dairy farms

Adair County, with 74 dairy farms

Lincoln County, with 66 dairy farms

Fleming County, with 51 dairy farms

Metcalfe County, with 48 dairy farms

Christian County, with 45 dairy farms

The top six ranking counties (with 3+ dairies) for milk production during 2006 were:

Barren County, 123.15 million pounds

Adair County, 81.5 million pounds

Christian County, 59.1 million pounds

Marion County, 57.0 million pounds

Warren County, 54.5 million pounds

Lincoln County, 54.2 million pounds

Source: Southeast United Dairy Industry Association

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